

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Nelson County, Kentucky, for the year ended December 31, 2004.

We engaged Tichenor & Associates, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Nelson County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY CLERK

**For The Year Ended
December 31, 2004**

Tichenor & Associates, LLP has completed the Nelson County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$24,629 from the prior year, resulting in excess fees of \$326,467 as of December 31, 2004. Revenues decreased by \$261,399 from the prior year and expenditures decreased by \$238,141.

Report Comment

- Lacks Adequate Segregation Of Duties

Debt Obligations:

Capital lease agreements totaled \$25,544 as of December 31, 2004. Future principal and interest payments of \$25,544 are needed to meet these obligations.

Deposits:

The Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	8
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	10
NOTES TO FINANCIAL STATEMENT	13
COMMENT AND RECOMMENDATION	18
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	22

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Nelson County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

The Honorable Dean Watts, Grant County Judge/Executive
Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Nelson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -
August 29, 2005

NELSON COUNTY
 PHYLLIS S. MATTINGLY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services		\$	16,362
Fiscal Court			8,743
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,059,473	
Usage Tax		3,217,156	
Tangible Personal Property Tax		2,757,878	
Other-			
Marriage		7,497	
Deed Transfer Tax		160,688	
Delinquent Tax		234,419	7,437,111
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		32,278	
Real Estate Mortgages		105,241	
Chattel Mortgages and Financing Statements		113,594	
Powers of Attorney		3,157	
All Other Recordings		56,193	
Charges for Other Services-			
Copywork		14,053	324,516
Other:			
Miscellaneous		3,371	
Tax Bills		3,169	
Elections		1,865	8,405
Interest Earned			2,242
Total Revenues		\$	7,797,379

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 PHYLLIS S. MATTINGLY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 821,144

Usage Tax 3,120,572

Tangible Personal Property Tax 1,017,997

Licenses, Taxes, and Fees-

Delinquent Tax 38,055

Legal Process Tax 38,292

Tax Bills 6,339 \$ 5,042,399

Payments to Fiscal Court:

Tangible Personal Property Tax 324,021

Delinquent Tax 36,954

Deed Transfer Tax 152,654 513,629

Payments to Other Districts:

Tangible Personal Property Tax 1,306,924

Delinquent Tax 100,775 1,407,699

Payments to Sheriff 1,940

Payments to County Attorney 35,471

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 299,098

Employee Benefits-

Employer's Paid Health Insurance 23,836

Contracted Services-

Advertising 942

Rental Maintenance Agreement 28,553

Materials and Supplies-

Office Supplies 17,995

Other Charges-

Conventions and Travel 3,130

Dues 3,157

Postage 9,262

Miscellaneous 1,893

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 PHYLLIS S. MATTINGLY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay (Continued)

Capital Outlay-		
Office Equipment	\$ 4,076	\$ 391,942
Total Expenditures		\$ 7,393,080
Net Revenues		404,299
Less: Statutory Maximum		74,232
Excess Fees		330,067
Less: Expense Allowance		3,600
Excess Fees Due County for 2004		326,467
Payments to Fiscal Court - January 18, 2005		326,467
Balance Due Fiscal Court at Completion of Audit		\$ 0

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

Note 4. Leases

The office of the County Clerk was committed to a lease agreement with Pitney Bowes for a meter system. The agreement requires a monthly payment of \$100 for 36 months to be completed on February 20, 2005. The total balance of the agreement was \$200 as of December 31, 2004.

The office of the County Clerk was committed to a lease agreement with Better Quality Digital Imaging Solutions for a copier. The agreement requires a monthly payment of \$297 for 63 months to be completed on May 30, 2008. In July 2003, the monthly payments increased to \$303. The total balance of the agreement was \$11,817 as of December 31, 2004.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Leases (Continued)

The office of the County Clerk was committed to a lease agreement with Toshiba Business Solutions for a digital copier. The agreement requires a monthly payment of \$125 for 36 months to be completed on February 28, 2006. The total balance of the agreement was \$1,500 as of December 31, 2004.

The office of the County Clerk was committed to a lease agreement with Lang for a copier. The agreement requires a monthly payment of \$142 for 48 months to be completed on July 22, 2008. The total balance of the agreement was \$6,115 as of December 31, 2004.

The office of the County Clerk was committed to a lease agreement with Software Management, Inc. for a main computer and seven (7) terminals. The agreement requires a monthly payment of \$1,478 for 60 months to be completed on April 30, 2005. The total balance of the agreement was \$5,912 as of December 31, 2004.

COMMENT AND RECOMMENDATION

NELSON COUNTY
PHYLLIS S. MATTINGLY, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options of establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Official could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.

The Official should periodically, compare the daily bank deposit to the daily checkout sheet and then compare the daily check out sheet to the receipts ledger. Any differences should be reconciled. The Official should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The Official should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Official should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.

The Official should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Official should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Official should document this review by initialing and dating the quarterly financial report.

The Official should periodically compare invoices to payments. The Official should document this review by initialing and dating the invoices.

County Clerk's Response: The incoming mail is handled by someone other than the bookkeeper.

PRIOR YEAR:

Nothing reported.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nelson County Clerk for the year ended December 31, 2004, and have issued our report thereon dated August 29, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

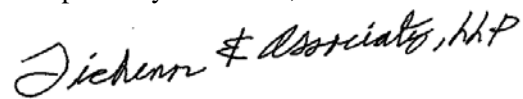
Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nelson County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
August 29, 2005

